

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Tustin Area Fire District	County Osceola
Audit Date 2/29/04	Opinion Date 6/16/04	Date Accountant Report Submitted to State: 7/16/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

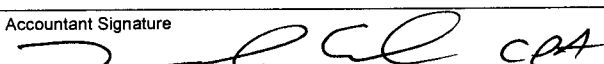
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☒ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASL GU).			✓

Certified Public Accountant (Firm Name) BAIRD, COTTER AND BISHOP, P.C.			
Street Address 134 W. HARRIS STREET	City CADILLAC	State MI	ZIP 49601
Accountant Signature 		Date 7/14/04	

TUSTIN AREA FIRE DISTRICT

TUSTIN, MICHIGAN

FEBRUARY 29, 2004

TUSTIN AREA FIRE DISTRICT
TUSTIN, MICHIGAN

FEBRUARY 29, 2004

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CERTIFIED PUBLIC ACCOUNTANTS

June 16, 2004

INDEPENDENT AUDITORS' REPORT

To the Fire Board
Tustin Area Fire District
Lake and Osceola Counties
Tustin, Michigan

We have audited the accompanying general-purpose financial statements of the Tustin Area Fire District, Tustin, Michigan, as of and for the year ended February 29, 2004, as listed in the table of contents. The general-purpose financial statements are the responsibility of the Fire District. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note I.B, the Fire District's policy is to prepare its general-purpose financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the general-purpose financial statements referred to in the first paragraph present fairly, in all material respects, the cash balances of the Tustin Area Fire District, Tustin, Michigan, at February 29, 2004, and the cash receipts it received and cash disbursements it paid and changes in general fixed assets for the year then ended on the basis of accounting described in Note I.B.

Our audit was conducted for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying financial information listed as "Supplemental Financial Information" in the table of contents is presented for purposes of additional analysis and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements, and in our opinion, is fairly stated in all material respects in relation to the general-purpose financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

TUSTIN AREA FIRE DISTRICT
TUSTIN, MICHIGAN

COMBINED STATEMENT OF ASSETS AND LIABILITIES ARISING FROM CASH TRANSACTIONS
ALL FUND TYPES AND ACCOUNT GROUP

FEBRUARY 29, 2004

	GOVERNMENTAL FUND TYPE	ACCOUNT GROUP	TOTALS (MEMORANDUM ONLY)
	GENERAL	GENERAL FIXED ASSETS	
<u>ASSETS</u>			
Cash			
Commercial Account	\$ 80,207	\$ 0	\$ 80,207
Savings Account	13,005	0	13,005
Land and Buildings	0	121,067	121,067
Furniture, Fire Equipment and Vehicles	0	498,382	498,382
TOTAL ASSETS	\$ 93,212	\$ 619,449	\$ 712,661
<u>EQUITY</u>			
Investment in General Fixed Assets	\$ 0	\$ 619,449	\$ 619,449
Balance	93,212	0	93,212
TOTAL EQUITY	\$ 93,212	\$ 619,449	\$ 712,661

The accompanying notes are an integral part of these financial statements.

TUSTIN AREA FIRE DISTRICT
TUSTIN, MICHIGAN

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCE
GOVERNMENTAL FUND TYPE
GENERAL FUND

FOR THE YEAR ENDED FEBRUARY 29, 2004

RECEIPTS

Aid from Other Governmental Units

Property Taxes

Burdell Township

\$ 49,550

Dover Township

16,379

Sherman Township

42,630

Interest and Rents

Interest Earnings

108

Other Receipts

Miscellaneous Income

1,495

Donations

425

Total Receipts

\$ 110,587

DISBURSEMENTS

Administration

Personal Services

Wages - Fire Chief

\$ 1,200

Supplies

Office Supplies

392

Public Safety

Other Services and Charges

Volunteer Firemen Reimbursement

4,632

Gas and Oil

1,412

Public Utilities

3,005

TUSTIN AREA FIRE DISTRICT
TUSTIN, MICHIGAN

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCE
GOVERNMENTAL FUND TYPE
GENERAL FUND

FOR THE YEAR ENDED FEBRUARY 29, 2004

Telephone	496
Travel and Education	150
Repair and Maintenance	8,279
Miscellaneous - Other	607
Capital Outlay	
Equipment	26,796
Other Functions	
Insurance and Bonds	14,921
Total Disbursements	\$ 61,890
Excess of Receipts Over (Under) Disbursements	\$ 48,697
<u>OTHER FINANCING SOURCES (USES)</u>	
Loan Payment	(28,179)
Excess of Receipts and Other Sources Over (Under) Disbursements	\$ 20,518
<u>BALANCE</u> - March 1, 2003	72,694
<u>BALANCE</u> - February 29, 2004	\$ 93,212

The accompanying notes are an integral part of these financial statements.

TUSTIN AREA FIRE DISTRICT
TUSTIN, MICHIGAN

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCE
BUDGET AND ACTUAL

GOVERNMENTAL FUND TYPE - GENERAL FUND

FOR THE YEAR ENDED FEBRUARY 29, 2004

	BUDGET	ACTUAL	VARIANCE- FAVORABLE (UNFAVORABLE)
<u>RECEIPTS</u>			
Aid from Other Governmental Units			
Property Taxes			
Burdell Township	\$ 50,824	\$ 49,550	\$ (1,274)
Dover Township	16,306	16,379	73
Sherman Township	42,630	42,630	0
Interest and Rents			
Interest Earnings	0	108	108
Other Receipts			
Miscellaneous	0	1,495	1,495
Donations	0	425	425
Total Receipts	\$ 109,760	\$ 110,587	\$ 827
<u>DISBURSEMENTS</u>			
Administration			
Personal Services			
Wages - Fire Chief	\$ 1,200	\$ 1,200	\$ 0
Supplies			
Office Supplies	250	392	(142)
Public Safety			
Other Services and Charges			
Volunteer Firemen Reimbursement	6,800	4,632	2,168
Firemen's Physicals	1,000	0	1,000
Contracted Services	400	0	400
Gas and Oil	2,000	1,412	588
Public Utilities	3,500	3,005	495

TUSTIN AREA FIRE DISTRICT
TUSTIN, MICHIGAN

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCE
BUDGET AND ACTUAL
GOVERNMENTAL FUND TYPE - GENERAL FUND

FOR THE YEAR ENDED FEBRUARY 29, 2004

	BUDGET	ACTUAL	VARIANCE- FAVORABLE (UNFAVORABLE)
Telephone	600	496	104
Travel and Education	2,000	150	1,850
Repair and Maintenance	12,500	8,279	4,221
Miscellaneous - Other	18	607	(589)
Capital Outlay			
Equipment	10,000	26,796	(16,796)
Other Functions			
Insurance and Bonds	16,120	14,921	1,199
Contingency	22,441	0	22,441
Total Disbursements	\$ 78,829	\$ 61,890	\$ 16,939
Excess of Receipts Over (Under) Disbursements	\$ 30,931	\$ 48,697	\$ 17,766
<u>OTHER FINANCING SOURCES (USES)</u>			
Loan Payment	(28,179)	(28,179)	0
Excess of Receipts and Other Sources Over (Under) Disbursements	\$ 2,752	\$ 20,518	\$ 17,766
<u>BALANCE</u> - March 1, 2003	9,897	72,694	62,797
<u>BALANCE</u> - February 29, 2004	\$ 12,649	\$ 93,212	\$ 80,563

The accompanying notes are an integral part of these financial statements.

TUSTIN AREA FIRE DISTRICT
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Tustin Area Fire District is a joint venture volunteer fire department supported by Burdell, Dover, and Sherman Townships. Each township levies millage to support the Department. Under the criteria established by generally accepted accounting principles, the Fire District has determined that there are no component units which should be included in it's reporting entity.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Fire District are organized on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The Fire District has no long-term debts which would be recorded in the general long-term debt account group.

The Fire District has the following fund type and account group:

Governmental funds are used to account for the Fire District's general government activities. The Fire District uses the flow of economic resources measurement focus and the modified cash basis of accounting for this fund which is an other comprehensive basis of accounting (OCBOA). Under the modified cash basis of accounting, receipts are recognized when collected (i.e., when cash is received). Disbursements are recorded when cash is disbursed.

Governmental funds include the following fund type:

The General Fund is the Fire District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Account Group. The General Fixed Asset Account Group is used to account for fixed assets of the Fire District.

TUSTIN AREA FIRE DISTRICT
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2004

C. Assets, Liabilities and Equity

1. Deposits and Investments

The Fire District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities or three months or less from date of acquisition.

State statutes authorize the Fire District to invest funds as follows:

- a. In bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States. This subdivision shall include securities issued or guaranteed by the government national mortgage association;
- b. In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association, or credit union meeting all criteria as a depository of public funds contained in state law;
- c. In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- d. In United States government or federal agency obligation repurchase agreements;
- e. In bankers' acceptances of United States banks;
- f. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan;
- g. In obligations permitted by PA 20 of 1943, as amended by PA 196, if purchased through an interlocal agreement under the Urban Cooperation Act of 1967;
- h. In investment pools organized under the Surplus Funds Investment Pool Act, PA 367 of 1982 or
- i. In investment pools organized under the Local Government Investment Pool Act, PA 121 of 1985.

TUSTIN AREA FIRE DISTRICT
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2004

2. Fixed Assets

Fixed assets used in governmental fund types (general fixed assets) are accounted for in the General Fixed Assets Account Group at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed assets account group are not depreciated. Interest incurred during construction is not capitalized.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not included in the general fixed assets account group.

3. Memorandum Only - Total Columns

Total columns on the general-purpose financial statements are captioned "Memorandum Only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

4. Use of Estimates

This presentation of financial statements on the modified cash basis of accounting requires the Fire District to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of receipts and disbursements during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The annual budget is adopted on the modified cash basis based on the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act", however, Tustin Area Fire District did not adopt the annual budget until the year in which the budget was intended to cover. A public hearing is held to obtain public comments. Appropriations lapse at year end. Budgeted amounts presented are as originally adopted on February 19, 2003, or as amended by the Fire District Board from time to time throughout the year.

TUSTIN AREA FIRE DISTRICT
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2004

The appropriated budget is prepared by activity. The Fire District Board exercises budgetary control over disbursements.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Fire District because it is not, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

At year-end, the carrying amount of the Fire District's deposits was \$93,212 and the bank balance was \$93,605. Of the bank balance, \$93,605 was covered by Federal Deposit Insurance. All deposits are in the Tustin Branch of the Lake-Osceola State Bank, Tustin, Michigan.

The carrying amount of the Fire District's deposits at year-end are shown below:

	GENERAL FUND
Commercial Account	\$ 80,207
Savings Account	13,005
TOTAL	\$ 93,212

B. Fixed Assets

Activity in the general fixed assets account group for the Fire District for the year ended February 29, 2004, was as follow:

	BALANCE 03/01/03	ADDITIONS	DELETIONS	BALANCE 02/29/04
Land and Buildings	\$ 121,067	\$ 0	\$ 0	\$ 121,067
Furniture, Fire Equipment and Vehicles	472,951	26,796	(1,365)	498,382
TOTAL	\$ 594,018	\$ 26,796	\$ (1,365)	\$ 619,449

TUSTIN AREA FIRE DISTRICT
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2004

IV. OTHER INFORMATION

A. Property Taxes

Each Township which is a member of the Fire District levies property tax millage to support the Fire District. The property tax collections and taxes receivable are recognized by the individual township and remitted to the Fire District periodically. The Fire District recognizes the funds received from the townships as aid from other governmental units.

B. Interest Received and Paid

For the year ended February 29, 2004, interest income on deposits and investments and interest expense is summarized as follows:

	INTEREST	
	RECEIVED	PAID
General Fund	\$ 108	\$ 0

C. Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; natural disasters, and worker's compensation claims. The government carries commercial insurance to guard against loss from these risks.

TUSTIN AREA FIRE DISTRICT
TUSTIN, MICHIGAN

STATEMENT OF CHANGES IN GENERAL FIXED ASSETS

FOR THE YEAR ENDED FEBRUARY 29, 2004

	BALANCE 03/01/03	ADDITIONS	DELETIONS	BALANCE 02/29/04
<u>GENERAL FIXED ASSETS</u>				
Land and Buildings	\$ 121,067	\$ 0	\$ 0	\$ 121,067
Furniture, Fire Equipment and Vehicles	472,951	26,796	(1,365)	498,382
	<u>\$ 594,018</u>	<u>\$ 26,796</u>	<u>\$ (1,365)</u>	<u>\$ 619,449</u>
<u>INVESTMENT IN GENERAL FIXED ASSETS</u>	<u>\$ 594,018</u>	<u>\$ 26,796</u>	<u>\$ (1,365)</u>	<u>\$ 619,449</u>

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

June 16, 2004

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Fire Board
Tustin Area Fire District
Lake and Osceola Counties
Tustin, Michigan

During the course of our audit of the general purpose financial statements of the Tustin Area Fire District for the year ended February 29, 2004, we noted the following items:

FIXED ASSETS

The Fire District has established a record of general fixed assets but is not updating the list for additions and deletions. We recommend that the Fire District periodically update its list of general fixed assets. Also, the record should be incorporated into the treasurers record book and noted in the Fire District board minutes so that it becomes a permanent part of the Fire District records.

BUDGETING

Pertaining to the Fire Districts compliance with Public Act 621 of 1978, the following are noted:

Three expense line items exceeded budgeted amounts. The Fire Board should continue to closely monitor its budget and make necessary amendments prior to incurring disbursements in excess of budgeted amounts.

INVESTMENT POLICY

Public Act 196 of 1997 became effective on December 30, 1997. It required local units of government to adopt an investment policy within 180 days of the end of the fiscal year they were in on the day the act took effect. The new law requires the policy to provide a statement of purpose, a delegation of authority to make investments, a list of authorized investment instruments, and to provide procedures for safekeeping of assets. We suggest that the Fire District coordinate with the Townships to adopt a policy similar to the one the Townships adopted.

FIRE DISTRICT YEAR END

Based on the information provided by the Fire District we believe some confusion may exist as to the actual fiscal year end of the Fire District. According to the original agreement, the Fire District's year end is the last day of February each year and not March 31 each year. We have discussed this with the Dover Township representatives and found that the Fire District attempted to change their year end to March 31 at their annual meeting on February 21, 1990. We have contacted the State of Michigan as their interpretation of the Fire Districts year end and they have it as February 29. According to the Department of Treasury the Fire Board would have to pass a formal resolution changing its year end and submit a copy to the State of Michigan.

We recommend consulting your attorney to determine if each Township must also approve a change in year end before it become official. We believe the Fire District should begin this process now, and have their next year end be March 31, 2005.

CONDITION OF ACCOUNTING RECORDS

The official accounting records kept by the Dover Township Treasurer were in poor condition, it appears that they were not consistently being reconciled to the bank accounts. We used records kept by the Dover Township Clerk to complete the audit, but had to integrate these records with the treasurers records to gain a complete set of records from March 1, 2003 to February 29, 2004.

RECORDKEEPING

The original operating agreement for the Fire District provided for the recordkeeping responsibility to be rotated every two years between the three township treasurers. Over the years, this practice has caused confusion and inconsistency. We recommend the fire district consider making the treasurers position a paid permanent position rather than continuing to rotate between the townships.

GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB) STATEMENT 34

GASB has issued its new financial accounting model for governmental entities. This pronouncement will become effective for the Tustin Area Fire District for its fiscal year ending February 28, 2005. The most significant change will be the requirement to report cost and depreciation information for fixed assets such as buildings and equipment. We are available to advise you on how to proceed with this project.

If you have any questions relative to the above comments and recommendations or other areas of your annual accounting, please feel free to call on us.

Very truly yours,

Baird, Cotter & Bishop P.C.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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June 16, 2004

LETTER OF REPORTABLE CONDITIONS

To the Fire Board
Tustin Area Fire District
Lake and Osceola Counties
Tustin, Michigan

In planning and performing our audit of the general purpose financial statements of Tustin Area Fire District, Tustin, Michigan for the year ended February 29, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

The relatively small number of people involved in the accounting functions of the Township make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

Very truly yours,

Baird, Cotter & Bishop, P.C.

BAIRD, COTTER AND BISHOP, P.C.